

Financial Administration - Not-At-Risk Funds

Chapter

4

II. FINANCING OF BENEFITS - LETTER OF CREDIT

A. General

The Department of Treasury Letters of Credit (LOCs) are a mechanism for financing "not-at-risk" TRICARE benefits. This allows contractors to draw cash directly from the Treasury to cover checks as they clear the contractor's bank. Only one bank account will be used for "not-at-risk" LOC transactions for each contract.

B. Procedures and Responsibilities

1. Setting up Letters of Credit.

a. Each contractor shall establish a bank account with a commercial bank that has the capability to process LOCs based on Treasury requirements at the time.

b. The contractor will submit bank information to CRM, F&AO not later than 30 days prior to the beginning of processing claims on a new account. Information must include the bank's name, overnight mail address, ABA (American Banking Association) routing number, the contractor's bank account number and an individual at the bank to be a point of contact including their phone number and fax number.

c. F&AO will establish the LOCs with the bank and the Treasury Department based on Treasury requirements at the time the LOCs are established. RMF will notify the bank and the contractor once the LOCs have been established along with any codes or other information necessary for the draws against the LOCs.

d. The amount of the LOCs are based on an annual estimate of benefit payments and is only an administrative ceiling. This amount does not constitute any authority to draw funds. Authority for drawing funds is based on clearing checks from approved vouchers.

e. The contractor has the sole responsibility for ensuring that cash draw downs do not exceed the amounts authorized to be drawn against the LOC. The contractor shall be responsible for returning any excess no later than the next business day after the excess draw. Interest will be charged, at rates established by the US Treasury, for any excess draws from the first workday after the draw until the excess is repaid or redeposited to the Treasury.

C. Daily Operations

1. Computation of a LOC Draw down:

a. The total amount of a cash draw down on a LOC is based on the daily total of benefit checks presented to the bank for payment. If estimates are needed, the draws shall be adjusted the next business day.

b. Computation of the amount of the draw must include any deposits of funds into these accounts. These deposits will reduce the amount of cash needed to be drawn against the LOC on the day of the deposit.

2. Normally only one draw down is done per day, per Letter of Credit is permitted.

3. Returns of funds for any reason should be done as soon as possible. (See Section II.B.1.e., above.)

4. If there is more than one LOC controlled by a contractor, strict attention should be paid to keeping all transactions separate and identified to the correct account and LOC.

5. Amounts drawn by the bank must be reported to the contractor for control purposes. The contractor and the bank may determine how they wish to report and control these transactions between them but the contractor is responsible for ensuring the accuracy of draw downs and for all reporting to TMA.

D. Reporting Requirements

1. Each month, the contractor shall prepare a report to the TRICARE Management Activity (TMA), Contract Resource Management Division (CRM), listing all cash draw downs against the Letter of Credit. This report is due the first workday of the following month. Figure 1-4-A-1 and Figure 1-4-A-2, contains the format and instructions for this report.

2. Each month, after reconciling the bank account, the contractor shall provide CRM, F&AO with a bank reconciliation within thirty (30) calendar days of the end of the month being reported. Figure 1-4-A-3 and Figure 1-4-A-4, contain the format and instructions for this report.

E. Year-end Processing

1. The contractor shall establish a separate bank account for each new fiscal year. All checks issued for benefit payment and all refunds received will be processed against the new account effective the first day of the new fiscal year. The contractor shall also transfer any partial installment balances to the new account from the previous years account.

2. Cash draw downs against the prior LOC may continue until all checks from the prior year have either cleared or have been canceled. LOCs will be terminated when all checks for a given year or account will have staledated or have been canceled.

3. Bank accounts must be closed no later than the end of February following the fiscal year end. A final reconciliation shall be made within thirty (30) calendar days. All adjustments must be reported as a voucher or explained on the final reconciliation at this time.